



OPNTM

Organic Produce Network

2021 Q1 Organic Produce Performance

April 13, 2021



Overview — 2021 Q1 Organic Produce Report

BACKGROUND

- This report covers organic fruit and vegetable performance for the Total U.S. as well as four U.S. regions.
- Reporting period covers 13 weeks of Q1, 2021 vs. the same period last year.
- This report was prepared by Category Partners exclusively for the **Organic Produce Network**.
- Data in this report is provided under contract by Nielsen. Coverage is the database for total food sales in the United States including all outlets, i.e. supermarkets, mass merchandisers, club stores, dollar stores, convenience stores and military commissaries. Nielsen offers the industry's broadest measurement of total retail food inclusive of UPC and fresh non-UPC (random-weight) products across the entire store, for roughly 90,000 stores nationwide.
- Data coverage includes all fresh fruit and vegetable categories sold in produce departments. The data also includes some non-fresh products that are often sold in produce. Examples are refrigerated/non refrigerated salad dressings, nuts and seeds, some bulk food products, some health/nutrition snacks and bars, salad toppings, dried fruits, etc.
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Q1 2021 Quarterly Report

OVERVIEW

Organic fresh produce has generated and maintained strong sales and volume since the beginning of the pandemic period at this time last year. Organic vegetables have seen the largest increases as consumers were forced to pivot away from out-of-home dining to purchasing most meal ingredients in supermarkets. The result has been consistent year-over-year increases in both conventional and organic fresh produce. However, on a percentage increase basis, the lift in organic produce performance has exceeded conventional produce.

Q1, 2021 was no exception with organic produce delivering strong growth for the period, significantly higher than conventional produce which actually showed a small volume decline for the quarter.

Last year at this time the emergence of the Covid pandemic created retail conditions unlike any ever experienced in the modern era of grocery retailing. In March, unprecedented pantry-loading purchase behavior by consumers across the United States emptied store shelves resulting in widespread out-of-stock conditions. However, as we move into Q2, 2021 it's apparent that the pandemic closures are beginning to ease. So the question will be how fast consumers are able to return to their "pre-Covid" food purchase behaviors.



In March 2020, pantry loading pushed dollar and volume performance to "Thanksgiving week" levels.

Q1, 2021 Highlights

- During Q1, organic produce continued to show significant growth over and above increases in conventional produce. Total organic dollars increased by 9.3% over Q1 last year.
- Conventional produce dollars saw only a modest year-over-year dollar increase, only slightly above the rate of inflation. During Q1, conventional produce dollars increased by 2.9%
- Organics volume also outpaced the growth of conventional during Q1. Organic volume for March increased by 5.7% while conventional produce actually declined by 0.6%.
- The top 10 organic produce categories generally performed very well. For Q1, eight of the top 10 organic categories, generated increases in dollars and volume. Of these top 10 categories, only organic carrots and apples failed to generate dollar and volume gains.
- Three categories (packaged salads, berries, fresh herbs) accounted for 46% of all organic fresh produce dollar growth in Q1, 2021 vs the same period last year.



Total U.S. Organic Performance — Q1, 2021

At the close of calendar year 2020 and entering Q1, both conventional and organic produce were generating year over year dollar increases. Organic gains surpassed increases in conventional products for the year. This trend continued in Q1, 2021 but conventional produce appears to have lost momentum compared to organics.

For Q1, conventional dollars grew 2.9%, only slightly higher than the rate of general inflation. Meanwhile, Organic produce generated a 9.3% dollar increase over Q1, 2020.

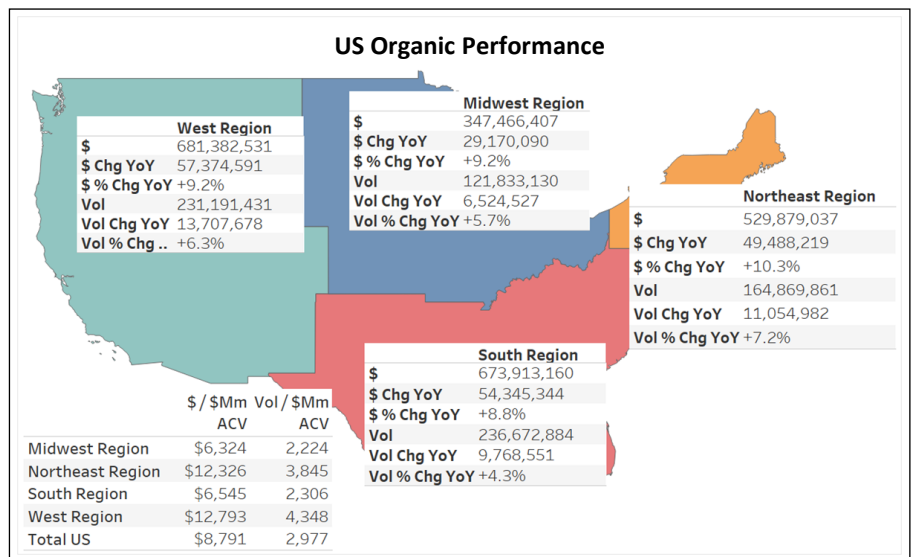
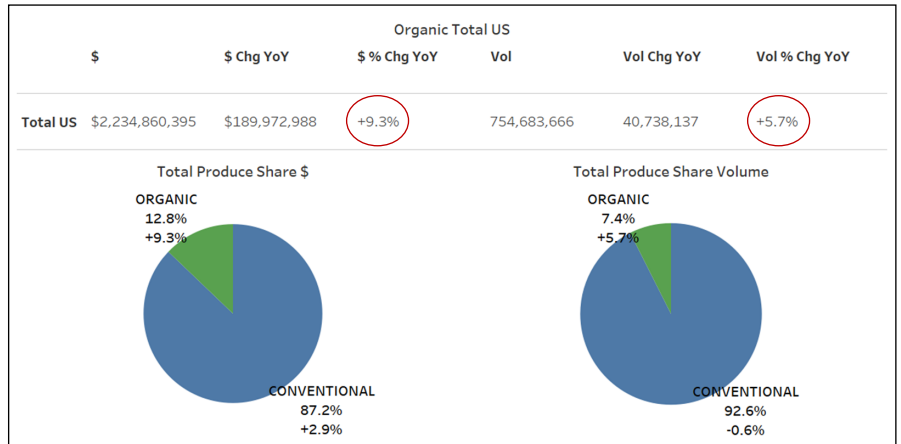
In volume, the growth of organic produce compared to conventional items is even more significant. Organic produce increased by 5.7% in volume while conventional produce lost 0.6%.

Regional Performance

Organic sales increases during Q1, 2021 were strong in every region of the U.S., increasing in both dollars and volume.

The West and Northeast are historically the strongest regions for organic produce sales. This trend continued in Q1 with these two regions also generating the highest increases in dollar growth. ACV dollar velocity of Organic produce in the West and Northeast is roughly double the levels in the Midwest and South. Moreover, these two regions generated double digit percentage year-over-year percentage growth in both dollars and volume.

The largest opportunity for organic growth is in the Midwest and South regions. Organic ACV dollars in the Midwest were 28% below the U.S. average. In the South region, organic ACV dollars were 26% below the Total U.S. average.



Q1 Top 10 Produce Categories — Organic Performance

Performance in the top 10 categories is critical to overall organic category performance. Sales concentration in the top 10 is even greater during Q1 when supplies of the diverse range of many regionally-produced organic fruits and vegetables are not available due to seasonal factors. This effectively concentrates organic sales in a narrower range of categories and products.

In terms of volume, the top 10 organic categories drive 72% of total organic volume while contributing 70% of dollars. In conventional, these same categories drive only 64% of total sales and 67% of volume. As a result, it is critical that retailers ensure appropriate assortment and selection within the top performing categories.

Dollar Performance

Packaged salads are the single largest driver of organic dollars. This category alone accounts for 17% of all organic sales. During Q1, 2021, Packaged Salad dollars increased by 9.5%

Organic berries have become a key winter category driving over 15% of organic dollars. Q1 was a strong quarter for berries which generated a dollar increase of 8.8%.

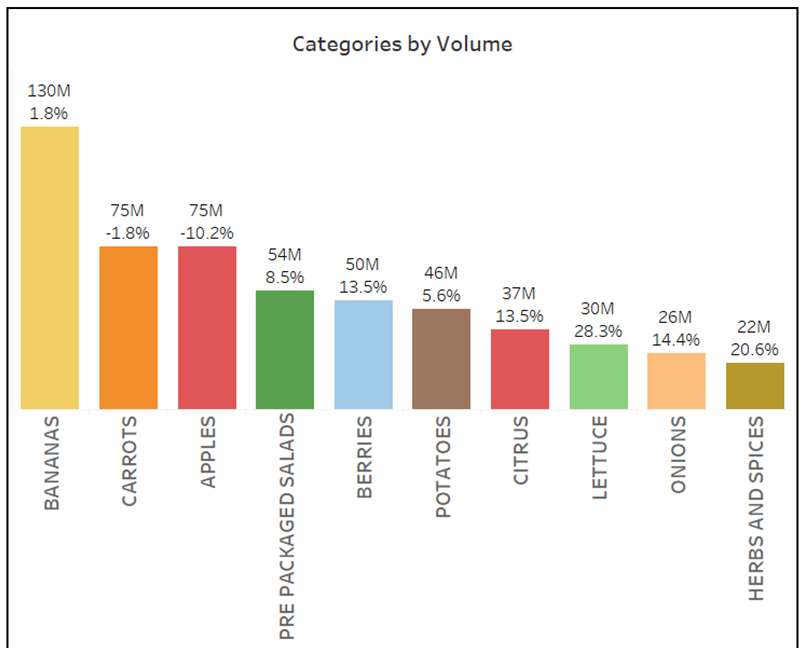
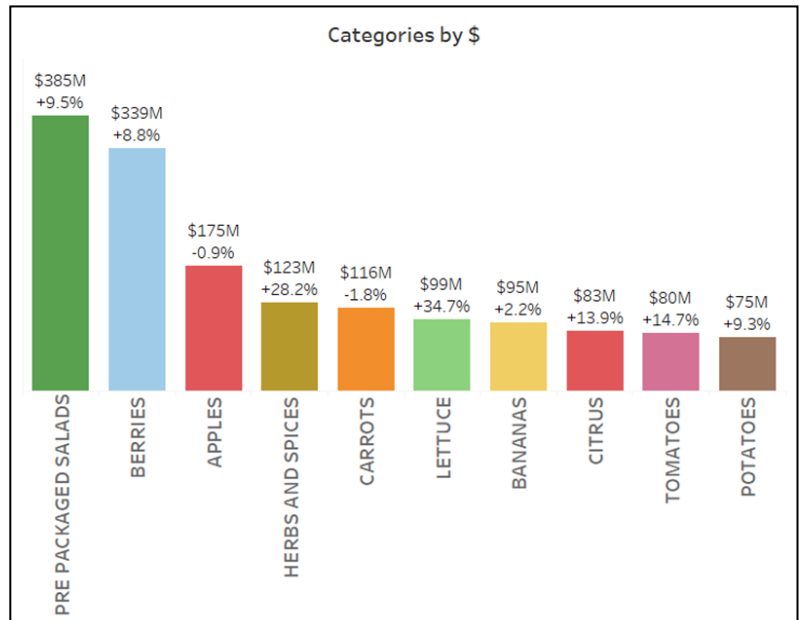
Within the top 10 categories, fresh herbs (+28.2%), Lettuce (+34.7%) and Tomatoes (+14.7%) generated the largest percentage gains in dollars.

Volume Performance

In terms of Q1 volume, bananas, carrots and apples rank as the top drivers of organic volume at retail. Bananas alone drive 17% of all organic volume. These three categories generate a remarkable 37% of total organic volume.

Q1 volume growth in organic bananas was modest, increasing by 1.6%. Carrots (-1.8%) and Apples (-10.2%) both experienced volume declines.

Among the volume gains among the top 10 categories, Lettuce (+28.3%), Herbs (20.6%) and Onions (14.4%) generated the largest percentage gains.

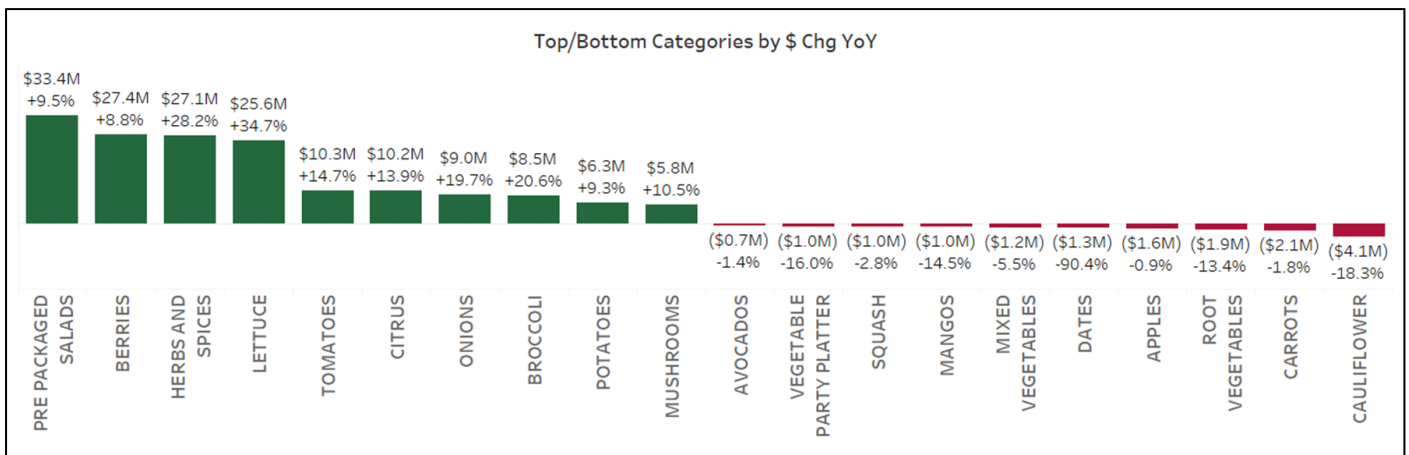


Q1, 2021 — Top and Bottom Growth Categories

Dollar Performance

Packaged salads, berries and herbs generated the highest dollar growth in organic dollars in Q1. These three Q1 power categories added nearly \$88 million in incremental sales growth over the same period last year and generated over 46% of total organic produce dollar growth. On a percentage basis, organic lettuce generated the largest dollar growth in the top 10, increasing by 34.7%, adding \$25.6 million in incremental sales nationally. These top 10 growth categories alone accounted for 86% of all organic dollar growth.

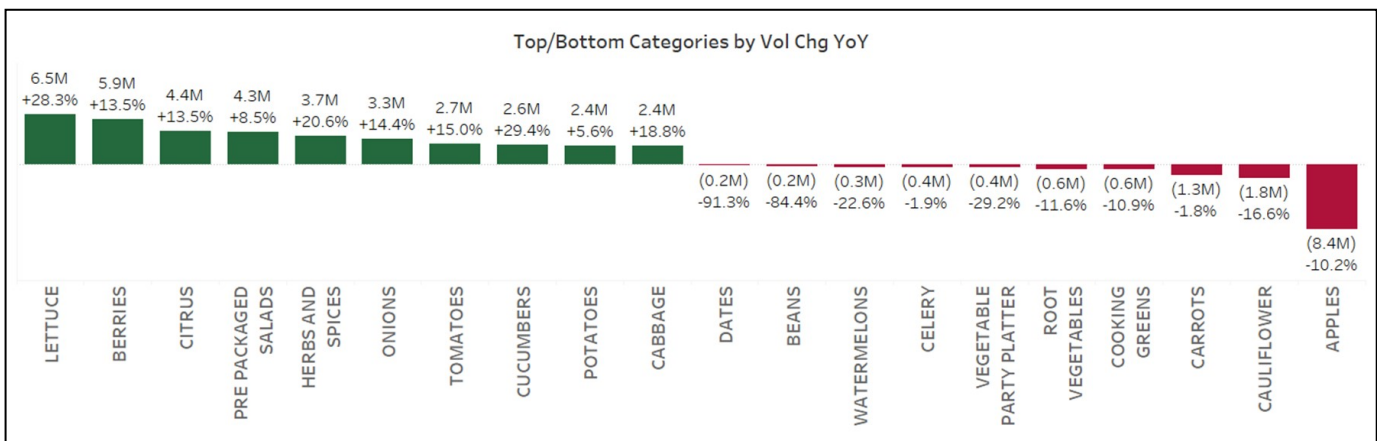
Among the lower performing categories, organic cauliflower (-18.3%), carrots (-1.8%) and root vegetables(-13.3%) had the largest declines in total dollars in Q1. Organic dates had a particularly bad quarter due to supply conditions, losing over 90% of dollars.



Volume Performance

As noted above, organic lettuce was one of the star performers during Q1. Not only was the dollar growth the largest of the top 10 categories, but in volume, organic lettuce was #1 increasing by 28.3%, a jump of 6.5 million pounds nationally. Berries (+13.5%), Citrus (+13.5%), Herbs (+20.6%), Cucumbers (+29.4%) and Cabbage (+18.8%) all generated strong volume growth.

Organic apples performance is traditionally strong in Q1 as supplies of many alternative organic fruits are lower. However, in Q1, 2021, organic apples struggled, losing -10.2% of volume, a loss of 8.4 million pounds.



Q1, 2021—Key Product Pricing

Conventional/Organic Price Premiums

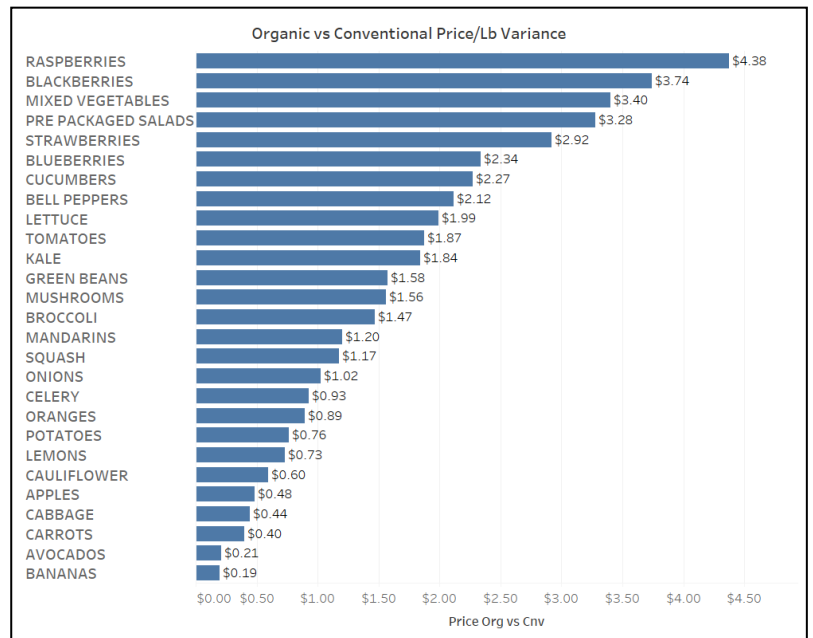
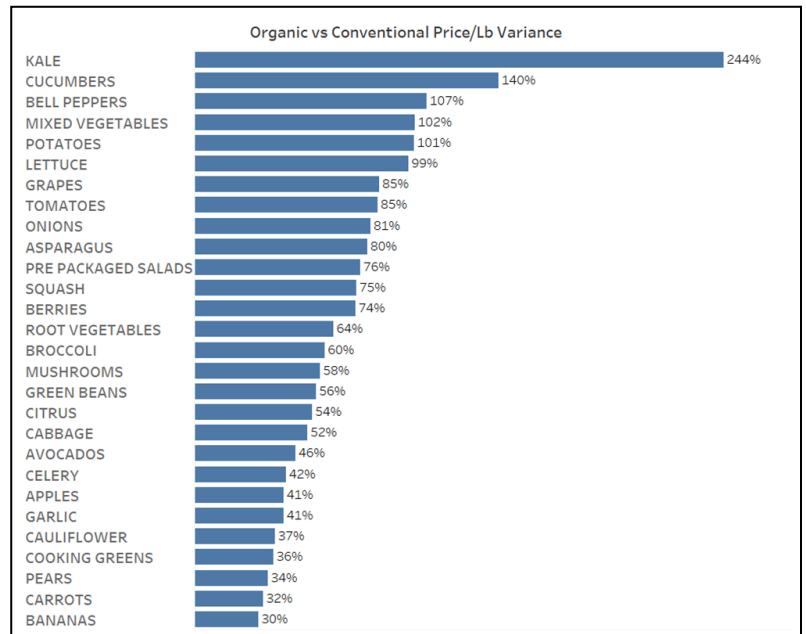
Price variance reveals switching costs: how much must a consumer pay to shift from a conventional product to the organic alternative. We know that for the produce department as a whole the incremental cost for a consumer to trade up to an organic item over the same conventional is often significant. However, beneath the department averages, there are multiple products that sell significantly above or below the department price premium.

Price gaps between organic and conventional products are typically identified by consumers as the #1 barrier to increasing purchases of organic produce. Many consumers state a desire to purchase organics but are apparently discouraged by the price premium required when substituting an organic item for a conventional item. So, it is helpful to understand the organic price premium by category.

During Q1, we can see that Kale had the largest price premium, with organic Kale selling at almost 2.5X higher than the conventional equivalent. In general, organic vegetables carry among the largest Q1 percentage premiums. Nine of the top 10 categories with the largest percentage premiums were vegetables (assuming we include tomatoes with vegetables).

In Q1, Berries maintained an organic price premium of 74%, roughly in the middle. However, when we look at the price premiums on individual berries we can see that these prices can be a barrier to entry for price-focused consumers. The four major berries were in the top six categories for the largest actual price gap between conventional and organic. For example, a consumer trading up to organic raspberries, on average, would have paid an incremental cost of \$4.38 per pound (\$2.19 per eight oz. package).

As noted in previous reports, it is no surprise that bananas continue to be the organic volume leader as the switching costs are so low for banana consumers. On average, organic bananas sold at only \$.19 per pound above conventional. While this still represents a price premium of 30% for organic bananas, what is obvious is that for many consumers, \$.19 per pounds is not a barrier to purchase.



Background

This report on organic produce performance was compiled and developed under the direction of Matt Seeley of the Organic Produce Network by Steve Lutz and Mike Long of Category Partners.

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Category Partners is a strategic insights company focusing exclusively on the fresh industries in the retail grocery channel. The company works exclusively with growers, marketers and retailers of conventional and organic fresh foods by providing data solutions, analysis, and insights on product performance, consumer preferences and industry trends.



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